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SUBJECT: Commodities Downturn Threatens Northern Territory

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Summary

1. (SBU) The Northern Territory's (NT) economy remains healthy, but is showing early signs of slowing as the global financial crisis works its way through Australia. The Territory's key mining and tourism sectors have softened since September while the NT government continues to tout the US\$20 billion INPEX liquefied natural gas plant as its best buffer against future downturns. The NT's heavy dependence on minerals, however, makes it particularly vulnerable to global declines in commodities prices. End Summary.

Global Slowdown Chips Away at NT Economy

2. (SBU) Despite recent government assurances to the contrary - Northern Territory (NT) Treasurer Delia Lawrie said in early December that "there is no sign yet that the global financial crisis has impacted our economy" - there is evidence that the NT economy is slowing. During a December 8-10 visit to Darwin, NT Chamber of Commerce CEO Chris Young told post that he expects the Territory's 2008 annual growth rate to slow from earlier predictions of 6.6 percent to 4 percent. He stated that resource exploration has dropped off recently due to lower commodity prices. In addition, tight credit has harmed smaller miners who rely on commercial lending to run their businesses.

3. (SBU) There are other indications that the Territory's mining sector is slowing. The McArthur River silver/lead/zinc mine announced in early December that it would lay off 200 of its 600 employees due to softening demand. According to Chris Young, Rio Tinto's Nhulunbuy bauxite mine is also suffering from reduced Chinese demand. During a visit to Port Darwin, General Manager Terry O'Connor pointed out stockpiles of manganese which have been growing since orders ceased in mid-September. (Note: Mining and resource exploration account for 25 percent of the NT's gross state product (GSP) and employ approximately 4,600 of its 217,000 residents. In 2006-2007, the Territory had the highest per capita GSP in Australia (A \$63,548/US \$41,942) largely thanks to the resource boom. The NT's dependence on minerals as a percentage of its economy is second only to that of Western Australia. End note.)

Tourism - The NT's Wild Card

4. (SBU) According to Suzanne Morgan, Manager of International Operations for Tourism NT - a government sponsored tourism advocacy group - travel to the Territory is noticeably down. Morgan said that the wet season (November to April) is traditionally slower than the dry season, so the full effect of the financial crisis will not be visible until May 2009. The United States is the fourth largest source of tourists for the NT, and during fiscal year 2008, 9.1

percent fewer U.S. visitors traveled to the Territory. The NT's tourism industry is second in importance as a percentage of GSP only to the resources sector, providing 11.7 percent of the Territory's jobs and catering to approximately 1.4 million visitors each year.

The INPEX Insurance Policy

15. (SBU) INPEX, a Japanese oil and gas firm, has selected Darwin as the future site for a US \$20 billion liquefied natural gas (LPG) operation. The plant will bring gas onshore from the Ichthys field off the coast of Western Australia for processing in Darwin. According to Brian O'Gallagher at the Chief Minister's Major Projects, Asian Relations and Trade Department, the INPEX plant will provide the Territory with as many as 2,300 jobs and has already stimulated the development of additional residential housing for anticipated population increases.

16. (SBU) Pending an environmental approval in October 2009, a Commonwealth production license in November 2009, and a final investment decision by INPEX in 2010, construction of the plant is due to commence in 2010 with the first export of LNG slated for late 2014/early 2015. The NT government sees this project as a cornerstone of the Territory's economy. Chief Minister (the Territory's equivalent to a Premier) Paul Henderson stated in early November that the "financial crisis will impact everywhere, but with the strong Territory economy, the INPEX investment and the stable Australian financial system, we are in a good position to withstand the fallout."

Snapshot of the NT Economy

17. (U) In addition to resources and tourism, the NT's economy is dependent on primary industries including cattle, fish, prawns,

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pearls and mangoes. Primary industries employed 3,000 people in 2006-2007 and accounted for A\$508 million (US\$335 million) of the Territory's GSP during this period (3.5 percent of GSP). Ten percent of Australia's defense forces are stationed in the NT, providing A\$245 million (US\$162 million) in infrastructure and peripheral industry investment. Government administration, defense, health and education together accounted for 20 percent of the NT's GSP in 2005-06. The most significant U.S. company doing business in the NT is ConocoPhillips, which operates a LNG plant in Port Darwin and employs approximately 120 people. Most of the plant's LNG is sold to Japanese buyers.

18. (U) The Northern Territory's GSP in 2006-2007 was A\$14.49 billion (US\$9.56 billion); unemployment was 3.8 percent. Approximately 64 percent of the NT's goods exports went to Japan, China and Indonesia; only 7.4 percent went to the United States. According to Brian O'Gallagher, the Territory is focused on taking advantage of its location to transform itself into the principal gateway between Australia and Asia. An uninterrupted railway from Adelaide to Darwin, completed just a few years ago, allows freight to move from Australia's main population centers overland rather than around the continent by sea freight to Asia.

Comment

19. (SBU) Confidence remains high in the Northern Territory where the resource boom has helped reduce unemployment to all time lows and has allowed the Territory to claim the title of highest per capita state income in Australia, although that figure masks poverty and poor living conditions for much of the NT's large indigenous population. As Rio Tinto's December 11 announcement that it would lay off 14,000 workers worldwide illustrates, however, the Territory is particularly vulnerable to a downturn in the global commodities market. Lay-offs at the McArthur River mine and the growing stockpiles of manganese at Port Darwin are ominous signs of tough times ahead for the Northern Territory's economy.

THURSTON